Market Review: A Tug of War

"The inevitable is always certain, but not always punctual." – Jim Grant

Shifting through the U.S. economic tea leaves has been a treacherous undertaking after a pandemic-induced fiscal money drop unlike ever before, which wrought havoc on traditional economic relationships. Classic economic talismans like the shape of the yield curve (inverted since March 2022) or the decline in the leading economic indicators (down 14 straight months through May) have in the past reliably foreshadowed an economic downturn; however, for the past four quarters (including current estimates for Q2 2023), real GDP growth has been above 2%. Should the financial cognoscenti revisit the iron law of macroeconomics, "This time is never different"?

Signs of economic resilience have manifested. Powering the economy has been the extraordinary strength of the labor market. Through June, according to the BLS, vigorous non-farm payroll employment growth has averaged 316k/month over the past twelve months, with unemployment hovering just above 50-year lows and year-over-year (YoY) wage growth of 4.4%. Coupled with excess savings derived from the stimulus programs adopted during the pandemic, solid new job growth has, at least for now, largely blunted the impact of rising short-term interest rates and the withdrawal of fiscal stimulus.

The case for an imminent economic slowdown is equally persuasive. First, consider the discrepancy between gross domestic product (GDP) and gross domestic income (GDI). Whereas GDP is the standard expenditure-based measure of economic activity/growth, GDI is an income-based measure of activity that measures the incomes earned and costs incurred in the production of GDP. Real GDI has now fallen by -0.8% YoY. In the 76-year history of modern national accounts data collection, there has never been a YoY contraction in GDI without a preceding or coincident recession. Secondly, the tremors felt in the banking system in March illustrate the impact of rapidly tightening financial conditions. The business model of many banks relies upon the maturity transformation of borrowing short term and lending long term. That process is not viable when short-term interest rates are significantly above long-term rates. Last, released for the first quarter of 2023 (pre-dating the March banking crisis), U.S. banks reported a widespread tightening of lending standards to households and businesses that is typically consistent with the onset of a recession (this condition has been true since Q3 2022). Historically, constricted credit availability has worked to slow economic activity gradually over several quarters.

This quandary of conflicting indicators has vexed monetary policymakers. Headline inflation has fallen substantially from 9.0% YoY to 4.0% in the past year, yet it remains above the Fed's 2.0% policy target (core inflation indicators have not come down as much and remain stubbornly high). After erring on the side of leaving policy too loose at the beginning of the pandemic recovery, policymakers stand ready to aggressively overtighten in this uncertain environment as they judge inflation risks remain too high. While policy rates are now above the inflation rate, indicating a relatively tight policy stance, policymakers seem keen to prevent an unwelcome ease in financial conditions that might occur if they were to wait and see how past short-rate increases will impact growth and inflation.

In the second quarter, investors were equally perplexed by this tug-of-war. In the wake of the banking crisis, 10-year Treasury bond yields had fallen to 3.47% at the end of the first quarter. In the second quarter, they decisively broke higher when Chair Powell announced that one or two more 25 bps rate hikes would be necessary this year, finishing the quarter at 3.83%, up 36 bps. Large-cap stocks (the S&P 500) gained +8.7% in the quarter and the Nasdaq is up almost 32% for the first 6 months of the year, predominantly on gains from a handful of stocks. This dichotomy between the bond market and the equity market has been puzzling for investors and the outlook for the second half has never been this polarized among the market prognosticators.

Russell Index Returns—*As of June 30, 2023*

	Quarter	Year to Date	1 Year	3 Years	5 Years	10 Years
Russell 2000 Index	5.2	8.1	12.3	10.8	4.2	8.3
Russell 2000 Value Index	3.2	2.5	6.0	15.4	3.5	7.3
Russell 2000 Growth Index	7.1	13.6	18.5	6.1	4.2	8.8
Russell 2500 Index	5.2	8.8	13.6	12.3	6.6	9.4
Russell 2500 Value Index	4.4	5.8	10.4	16.1	5.3	8.0
Russell 2500 Growth Index	6.4	13.4	18.6	6.6	7.0	10.4
Russell Mid Cap Index	4.8	9.0	14.9	12.5	8.5	10.3
Russell 1000 Index	8.6	16.7	19.4	14.1	11.9	12.6

Sources: Russell Investments. Full definitions of the Indexes may be found in the Disclosures and Composite Notes sections.

Small- and Mid-Cap Market Review

As measured by the Russell Indexes, small and mid caps posted negative returns in April and May followed by a sharp rebound in June. The gains achieved in June were large enough to offset the declines earlier in the quarter. While the broad Russell 2000 and 2500 both returned 5.2% in the second quarter, large caps returned 8.6%—indicating that most of the returns were concentrated in the larger market cap ranges. Across all market caps, growth outperformed value for the second quarter in a row with the Russell 1000 Growth returning 12.8% and the Russell 2000 Growth delivering 7.1%. Year to date, January and June were the only months with positive small-cap returns while February through May were consecutive down months for the Russell 2000.

Results were again primarily positive across most sectors in the Russell Indexes. In both the Russell 2000 and 2500 Value Indexes, Technology was the top-performing sector (Russell 2000 Value: 11.6%; Russell 2500 Value: 11.9%). Meanwhile, in the Russell 2000 Value Index, Consumer Staples and Utilities were the laggards for the quarter, posting returns of -5.8% and -4.2%. In the Russell 2500 Value Index, the Utilities and Materials sectors were the only two sectors that generated negative returns (-3.7% and -1.2%).

The markets have been anticipating a recession since the beginning of 2022. After the selloff in the last year, the ratio of the Russell 2000 to the S&P 500 is close to its lowest in almost two decades. Following all the euphoria in 2021,the Nasdaq is down only 14% from the peak in November 2021. Meanwhile small caps are down more than 20% over the same time period—while they clearly did not benefit as much in 2020-2021. On a relative and absolute basis, small caps are unusually cheap. Small-cap shares are already factoring in a recession and an earnings collapse while large caps are historically expensive. A significant multiple compression has taken place in small caps versus large caps. Further, small cap value is much more attractively valued versus small cap growth.

Performance Impact

Both our strategies produced positive absolute returns during the quarter while underperforming on a relative basis. Our Small Cap Value strategy returned 2.1% gross (1.8% net), underperforming the Russell 2000 Value Index by 1.1%. Meanwhile, our SMID Cap Value strategy returned 1.4% gross (1.1% net) versus 4.4% for the Russell 2500 Value Index.

In reviewing our Small Cap portfolio's attribution, the shortfall was all stock selection related. Most of this shortfall was due to the Technology, Consumer Discretionary, and Health Care sectors with Diebold Nixdorf, Inc., Capri Holdings Ltd., and Integra LifeSciences Holdings Corp. detracting the most value from their respective sectors. An overweight in the traditionally defensive Consumer Staples sector further hindered performance. Conversely, our security selection in the Consumer Staples and Industrials sectors partially offset our strategy's underperformance during the period. US Foods Holding Corp. was the top performer within Consumer Staples, and Zurns Elkay Water Solutions Corp. was the top contributor within Industrials.

In our SMID Cap Value portfolio, stock selection accounted for all the underperformance and we lagged the Russell 2500 Value Index in 5 of the 11 sectors. The underperformance was due to stock selection in the Health Care, Consumer Discretionary, Industrials, and Technology sectors. Catalent Pharma Solutions, Inc. and Integra LifeSciences detracted the most value in Health Care, Capri in Consumer Discretionary, Genpact Ltd. in Industrials, and Diebold Nixdorf in Technology. Partially offsetting our underperformance was stock selection in the Consumer Staples and

Energy sectors. Within Consumer Staples, US Foods was the top performer. In Energy, EQT Corp. was the top contributor.

(All companies not specifically discussed above are discussed below in the Small and SMID Cap Value top and bottom five contributors sections.)

Portfolio Strategy and Key Exposures

The first half of 2023 has been incredibly strong for large-cap Technology stocks, especially the magnificent 7 stocks that were further boosted by the Artificial Intelligence (AI) euphoria in the second quarter. The breadth was narrow in the markets as mega Technology stocks became the defensive play and correlations remained elevated as stocks were trading based on their sectors and factors (e.g. low volatility) rather than on underlying fundamentals of the business. We retained our defensive posture during the quarter. However, as we look at a few of our holdings that declined during the quarter as well as certain companies that we like, we believe a few have become incredible bargains. In June, there were early signs of broadening out of the rally to other sectors and in small- and mid-cap stocks. As discussed in the last quarterly review, our portfolio's key sector exposures have remained consistent with no major changes. Our overweight in the Consumer Staples sector is not merely a macro call but more based on the upside we see in our holdings due to fundamentals. In the Consumer Discretionary sector, we believe we own several high-quality businesses that offer considerable upside due to the current macro uncertainty. Valuations in the Industrials and Technology sectors are generally stretched; nevertheless, the fundamentals seem to be holding in. Banks have stabilized after the mini banking crisis earlier this year, however, the NIM pressure will continue to suppress earnings in the near term. We remain underweight Financials in both strategies.

Small Cap Value Equity Performance—*Through June 30, 2023*

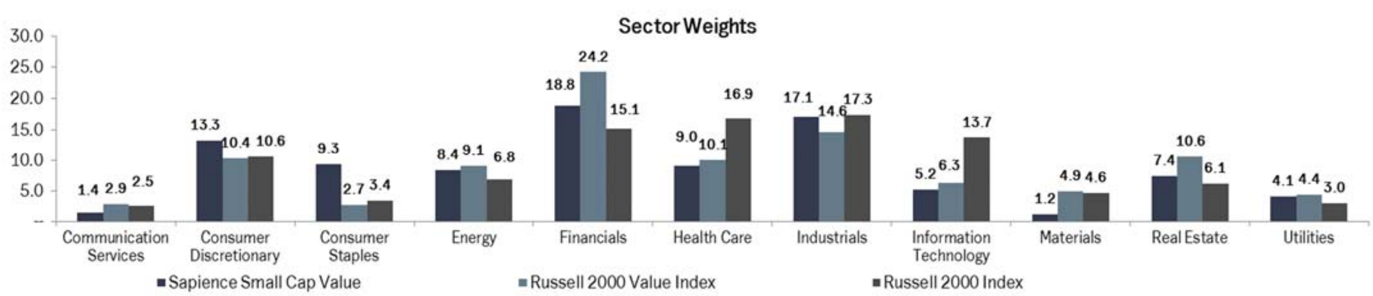
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SCV Equity Composite (Gross)	2.1%	0.2%	4.1%	18.1%	3.1%	5.9%
Sapience SCV Equity Composite (Net)	1.8%	-0.3%	2.9%	16.9%	2.0%	4.7%
Russell 2000 Value Index	3.2%	2.5%	6.0%	15.4%	3.5%	6.6%
Russell 2000 Index	5.2%	8.1%	12.3%	10.8%	4.2%	7.7%

Sources: Advent Geneva, Russell Investments.
Inception Date: October 1, 2016
NOTE: The complete GIPS Report and additional disclosures can be found at the end of the document.

Small Cap Value Equity Characteristics and Sector Weights—*As of June 30, 2023*

	Sapience Small Cap Value
Largest 10 Positions – Total Weight	24.8%
Active Share [2] (relative to the Russell 2000 Value Index)	95.5%
Tracking Error [3]	5.6
Number of Buys[4]	6
Numbers of Sells[4]	5

[2 and 3] Please see disclosures for calculation [4] Number of buys and sells during the quarter



Sources: Russell Investments, FactSet

Small Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the second quarter.

Top and Bottom Contributors
Second Quarter 2023

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
US Foods Holding Corp.	Integra LifeSciences Holdings Corp.
EnerSys	Diebold Nixdorf, Inc.
Zurns Elkay Water Solutions Corp.	Capri Holdings Ltd.
Amedisys, Inc.	Glacier Bancorp, Inc.
EnPro Industries, Inc.	Envista Holdings Corp.

US Foods Holding Corp.
US Foods Holdings Corp.'s stock price outperformed during the second quarter as the company posted strong first quarter results with better case volume growth, especially with independent restaurants, that led to higher margins and profit per case. Further, management reaffirmed its 2023 EBITDA guidance and introduced fiscal year 2024 guidance that was ahead of expectations.

EnerSys
Enersys is a leading global manufacturer and distributor of industrial batteries. The company posted better than expected fiscal year Q4 2023 results and provided a positive outlook despite the ongoing macro uncertainty. In addition, the company is benefiting from tax credits associated with the Inflation Reduction Act (IRA).

Zurns Elkay Water Solutions Corp.
Zurns Elkay Water Solutions Corp. reported a healthy and better than expected first quarter while maintaining 2023 guidance. After some initial challenges with the recently acquired Elkay Manufacturing, the combined business now appears to be on more stable footing. The integration is going well, and management is making progress towards achieving synergy targets. Despite some concerns about non-residential construction that had been pressuring shares, the company saw growth in all product categories except for residential products. We believe shares had reached a depressed level that created an opportunity for some recovery as concerns over the economy dissipated.

Amedisys, Inc.
In early May, Amedisys, Inc. received an offer to be acquired by Option Care Health, Inc. Approximately one month later, the company received an unsolicited offer from Optum-UnitedHealth Group to acquire the company at a higher price. Ultimately the company agreed to be acquired by Optum for $101 in cash per share. Amedisys is a good example of the investments we often look to make in attractive businesses going through challenges. We believe home health will play a critical role in the delivery of health care services given patient preferences and the cost advantage of home health over institutional care. Amedisys was the largest independent home health provider and had a strong reputation for quality patient services. The home health industry has been going through nurse-shortage challenges as well as reimbursement pressures, which have hindered earnings at Amedisys. Despite these challenges, we believed there was value in the company and its service offering. An acquisition was an option that we knew could potentially emerge. Although we think the company would have been worth more in a couple years as some of the industry pressures subsided, we are cognizant that the valuation received reflects some of the near-term risks.

EnPro Industries, Inc.
EnPro Industries, Inc. had a strong start to the year with first quarter results well above expectations. Strong demand in several end markets including aerospace, nuclear, general industrial, and commercial vehicles offset expected softness in semiconductors. The company's Sealing Technologies segment reported an impressive 15.1% organic revenue growth rate. Additionally, the company continues to make great progress improving profitability. Sealing Technologies EBITDA margin improved 640 basis points YoY to 28.7% driven by operational improvements and mix. While Advanced Surface Technologies sales declined organically due to the slowdown in semiconductors, EnPro's semiconductor business remains well positioned to participate in the semiconductor recovery and should benefit from shifts in production to the United States. The company's strong execution led to impressive financial results, which helped share performance.

Integra LifeSciences Holdings Corp.
Integra LifeSciences Holdings Corp.'s shares were pressured by a voluntary recall of products manufactured at the company's Boston facility, which accounts for 5% of total revenue. The voluntary recall was prompted by endotoxin testing deviations and impacted several of the company's higher growth tissue technology products. Integra had a good start to the year, but the recall announcement was not well received, especially given the company is still in the process of relaunching CereLink, which was recalled in 2022. Ultimately, we believe Integra can resolve these issues and return towards its growth targets, but two recalls in a brief period will require management to improve its execution to regain investor confidence.

Diebold Nixdorf, Inc.
Diebold Nixdorf Inc.'s stock price declined during the quarter as the company's first quarter results missed expectations despite strong order volume and a healthy backlog. The revenue shortfall was due to elevated finished goods inventories and deferral of revenue recognition due to the push out of installations. As a result of the elevated inventories, the company consumed higher than expected cash for working capital. Since management could not provide any specific details of their ongoing negotiation with the debtholders, and considering their tight liquidity, we exited the position.

Capri Holdings Ltd.
Capri Holdings Ltd.'s stock price declined during the quarter as the company delivered slightly better than expected results for the fiscal fourth quarter. However, guidance for the first quarter fiscal year 2024 was below expectations due to weakness in the wholesale channel and a pullback among aspirational luxury customers. The company's management maintained its EPS guidance for fiscal year 2024 at $6.40 while reducing the revenue guidance by 2%. Capri has executed well since the pandemic by growing sales in all three of its brands (Versace, Michael Kors, and Jimmy Choo), expanding margins, and generating impressive strong free cash flow. We believe that Capri's stock is trading at a depressed 6-7x P/E multiple for a company that owns a portfolio of leading brands.

Glacier Bancorp, Inc.
Glacier Bancorp, Inc.'s stock price declined in the second quarter after reporting a modest earning miss relative to street expectations. Glacier's business model has been increasingly stressed as large depositors seek higher rates after the turmoil in the banking sector during March. Core pre-provision net revenue was below the consensus estimate as the bank proactively built liquidity to buffer deposit outflows and maintain mid-single-digit loan growth. While the bank's net interest margin (NIM) fell -22 bps to 308 bps, management reported that its cycle-to-date deposit beta of just 4% is among the best in the industry. NIM weakness may persist another quarter or two, but over time, the loan portfolio should reprice to higher yields, and management should be able to remix the bank's funding mix to stabilize NIM around 295-300 bps. The credit quality of Glacier's loan book remains excellent, with little, if any, signs of distress in its CRE Office exposure. While it has been a challenging six months for Glacier's shares, the current environment validates its business model and the bank's defensive characteristics as the economy loses momentum. The bank has an attractive low-cost core deposit base, historically solid asset quality due to conservative underwriting standards, a diversified and granular loan/deposit portfolio, and robust capital levels.

Envista Holdings Corp.
Envista Holdings Corp.'s first quarter results were pressured by lower demand for capital equipment, driven by macro concerns and higher interest rates. Financial performance was also impacted by softness in China and Russia. Patient volumes in China started the year slow but improved towards quarter end as more dental offices reopened and patient comfort visiting dentists improved. Despite the slow start to the year, management maintained full year guidance. We believe Envista continues to remain a solid business with much higher margins than just a few years ago, an improved product portfolio, and significant runway to grow its clear aligner business. We view recent challenges as predominantly macro related and believe the company will deliver stronger performance as dental volumes improve.

SMID Cap Value Equity Performance—*Through June 30, 2023*

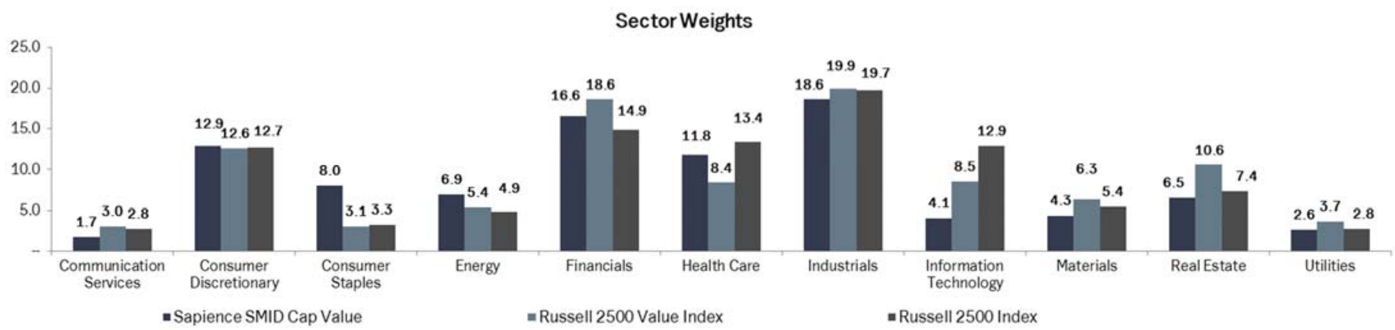
	Quarter	Year to Date	1 Year	3 Years	5 Years	Inception to Date
Sapience SMID Cap Value Equity Composite (Gross)	1.4%	-2.1%	2.2%	14.5%	2.3%	4.5%
Sapience SMID Cap Value Equity Composite (Net)	1.1%	-2.5%	1.2%	13.4%	1.3%	3.4%
Russell 2500 Value Index	4.4%	5.8%	10.4%	16.1%	5.3%	7.3%
Russell 2500 Index	5.2%	8.8%	13.6%	12.3%	6.5%	9.1%

Sources: Advent Geneva, Russell Investments.
Inception Date: October 1, 2016
NOTE: The complete GIPS Report and additional disclosures can be found at the end of the document.

SMID Cap Value Equity Characteristics and Sector Weights—*As of June 30, 2023*

	Sapience SMID Cap Value
Largest 10 Positions – Total Weight	28.8%
Active Share [2] (relative to the Russell 2500 Value Index)	94.6%
Tracking Error [3]	5.2
Number of Buys[4]	5
Number of Sells[4]	5

[2 and 3] Please see disclosures for calculation [4] Number of buys and sells during the quarter



Sources: Russell Investments, FactSet.

SMID Cap Value Equity

Detailed below is our discussion of overall top and bottom contributors during the second quarter. US Foods Holding Corp., Integra LifeSciences Holdings Corp., Diebold Nixdorf, Inc., Capri Holdings Ltd., and Envista Holdings Corp. are also owned in our Small Cap Value strategy, and these companies were discussed in the Small Cap Value Equity commentary section above.

Top and Bottom Contributors
Second Quarter 2023

Top Five Contributors	Bottom Five Contributors
Company Name	**Company Name**
Encompass Health Corp.	Catalent Pharma Solutions, Inc.
Hasbro, Inc.	Diebold Nixdorf, Inc.
US Foods Holding Corp.	Integra LifeSciences Holdings Corp.
EQT Corp.	Capri Holdings Ltd.
Elastic N.V.	Envista Holdings Corp.

Encompass Health Corp.
Encompass Health Corp. had a strong first quarter with total discharge growth of 9.4%. The company continues to see strong demand with 5.9% same facility discharge growth, augmented by 3.5% new store discharge growth. Encompass

is amid a multi-year expansion plan, that will see the company significantly increase its IRF bed capacity to meet increasing demand for rehabilitation services. These investments should support attractive organic earnings growth over the next several years. After a challenging labor market in 2022, the company also experienced improvement in contract labor expenses and sign-on/shift bonuses for staff, which benefited margins. The strong start to the year allowed management to raise the full year guidance.

Hasbro, Inc.
Hasbro Inc.'s stock outperformed during the second quarter as the company posted better than expected revenues and gross margin. Sales were better than the low expectations in the consumer products segment due to the destocking at its major retail customers, which was announced in the prior quarter. The company's Wizards of the Coast grew +12%—ahead of expectations. Hasbro's management also reaffirmed its 2023 guidance and still expects the destocking in the retail channel to be completed by the second or third quarter.

EQT Corp.
EQT Corp. reported a good quarter with disciplined and prudent execution in a depressed natural gas environment. Capex was lower for the same delivered production, and gas differentials came in favorably—a direct drop to the bottom line. In addition, EQT has reduced absolute debt by more than a billion dollars in the last six months with leverage now at 0.9x. Their Tug Hill acquisition reduces their free cash flow (FCF) breakeven by 15 to 20 cents per MCF, bringing it down to less than $2 per MCF, which is the lowest among all gas E&Ps in the country. Their hedged book has improved from last year as well and is one of the best natural gas hedged books at present with more than 50% of volumes protected at the low end of $3 per MCF. Over and above good execution by EQT, the price of gas has also rallied approximately 30% from the bottom of $2 per MCF, which has also benefited EQT's stock.

Elastic N.V.
Elastic N.V. reported a good quarter, slightly beating expectations on the topline while having strong performance on the operating profit/FCF line. They are expected to grow at 16% for the next fiscal year and also are expecting FCF margins to exceed 10%, which compares favorably to their peers. Elastic is seeing customers consolidate their workloads on their platform as cloud storage is a lower-cost alternative that also provides a variety of tools on the same platform. Despite these positives, we have been monitoring some private companies in the space, such as Pine Cone, which provides a vector-based search methodology versus the text-based search method employed by Elastic. Pine Cone, as well as other companies utilizing the vector-based search methodology, are beginning to gain traction—creating a potential threat to Elastic's model. With this concern in mind coupled with our desire to do more work in the area of vector search and how it applies to AI workloads, we sold our position in Elastic during the quarter.

Catalent Pharma Solutions, Inc.
The first few months of 2023 provided many developments for Catalent Pharma Solutions, Inc. The company started 2023 by reporting a good December 2022 quarter and progressed towards returning the company to its targeted growth path. The promising start to the calendar year was short lived as the company provided a disappointing business update in April. Productivity issues, an ERP implementation at one facility, and higher expenses materially impacted results for the March quarter. The company was also forced to delay reporting its March results and filing of its 10-Q. In late June, news also emerged that Catalent's Bloomington facility had received 483 observations, which impacted a product for customer Regeneron Pharmaceuticals. All of these developments have pressured the company's shares. While it will take one to two quarters for the company to rectify these issues, we believe Catalent remains an attractive asset with differentiated capabilities in the manufacturing of biopharmaceuticals. The accounting review that led to the delayed 10-Q filing did not find the need for any major corrections to prior periods. Catalent also updated its guidance to take into account more conservative assumptions. The facilities, which faced operational challenges, are making productivity improvements and should start to see the financial benefits later this calendar year. Catalent was one of the primary manufacturers of the Covid vaccine. We believe some of the recent challenges are related to transitioning the company's operations from the manufacturing of one product at large quantities, back to the more normal production of multiple products at smaller quantities. The transition to normal operations seems to have caused more disruption than anyone expected. Share performance will now depend on continued operational improvement and upcoming guidance on the post-challenges earnings base of the company.

Outlook

"Uncertainty is an uncomfortable position. But certainty is an absurd one" – Voltaire

Investors have been on the edge for more than a year now, which is rational given how many crucial issues facing the global economy remain unresolved. Several that seem to be top of mind are:

1. When will the U.S. economy fall into a recession, or will we avoid a recession and have a soft landing?
2. When will inflation decline substantively towards the Fed's 2% target?
3. Will the Fed pivot and cut rates towards the end of 2023 or in 2024?
4. Are we in a new rate regime—higher for longer?
5. What's the current neutral interest rate for the U.S. economy?
6. What will be the outcome of the war in Ukraine?
7. Will China stimulate more aggressively to reboot its economy?
8. Will reshoring and the infrastructure bill benefit the U.S. economy in a meaningful way?

In the last 25 years, we have seldom witnessed such a multitude of factors causing so much uncertainty as in the current environment. At Sapience, we believe that investor comfort is a poor gauge for evaluating risk exposure. From our perspective, the uncertain present offers a very attractive opportunity to invest in small and SMID caps for investors with a medium- to long-term time horizon.

Apple's market capitalization (AAPL; $3.02 trillion as of July 6th; forward P/E of 29.1x) now exceeds the market cap of the entire Russell 2000 Index (RTY; $2.77 trillion), highlighting the massive disparity between large-cap and small-cap equity valuations. According to BofAML, the current relative forward P/E of small-cap stocks to large-cap stocks is trading near levels not seen since the records set during the Dotcom Bubble, which peaked in March 2000. Using a valuation metric that excludes outliers and non-earners, the Russell 1000 Index trades on 21.9x forward EPS, a whopping 63.4% above the comparable valuation measure for the Russell 2000 Index (13.4x). While there are few historical precedents, relative valuations are mean-reverting, and discrepancies of these extreme magnitudes (over two standard deviations from the mean) usually predict strong performance in small-cap stocks relative to large-cap stocks over the subsequent five years. The last five years have been abysmal for small-cap returns—the Russell 2000 Value Index delivered +3.5% and the Russell 2000 Index +4.2% for the five-years ended June 30, 2023 (annualized). It is during such challenging periods that having a long-term investment horizon seems essential. Maintaining patience and discipline is even more critical for small/SMID caps because of their history of emanating from long periods of low performance to those with above average returns, leading to superior long-term performance. For example, since the Russell 2000 Index's inception, when its annualized five-year returns were less than 5%, subsequent five-year returns averaged almost 15%.

As we wrote in our last letter, the current market environment is reminiscent of the latter half of 2000/2001. While the Nasdaq imploded in March 2000, small-cap value stocks did much better on a relative and absolute basis for the two years 2000-2001. The setup is similar to today in that sentiment towards small-cap stocks is dismal and the valuations are depressed. The current small-cap valuation discount is not warranted, even in light of a hawkish Federal Reserve, above-target inflation, widespread fears of an economic slowdown, and a rapidly developing fad for AI-related stocks. Earnings and fundamentals should drive share prices in the medium to long term. The best investments are often initiated with some discomfort and when the outlook is hazy. This is an ideal environment for our strategy as we are price-driven investors and we have been able to buy high-quality businesses at reasonable to depressed valuations. The last one year has provided us with the best opportunity set since March of 2020—the onset of Covid. We look forward to seeing how these investments bear fruit over the next 2-3 years.

Disclosures

This is not a recommendation to buy or sell a particular security. The holdings discussed above do not represent all of the securities purchased, sold or recommended for Sapience's clients. You should not assume that this or any of the securities or sectors discussed herein will remain in the portfolio or that investments in such securities were or will be profitable. Past performance is not indicative of future results. Contributors and detractors for each strategy are selected based on the stock's attribution to a Sapience Small Cap Value representative account's return or a Sapience SMID Cap Value representative account's return. The calculation methodology and a list showing the contribution of each holding in the representative account to the representative account's performance during the measurement period are available upon request.

Composite and benchmark returns reflect the reinvestment of income. The volatility of the Composite may be different than its respective benchmarks. Composite returns are presented gross and net of actual investment advisory fees. You cannot invest directly in an index, which also does not take into account trading commissions and costs, see below for a description of benchmark indexes. Performance is expressed in U.S. dollars. Gross returns will be reduced by fees and other expenses that may be incurred in the management of the account. Additional information regarding policies for valuing portfolios, calculating performance, and preparing compliant presentations is available upon request. Dividends are recorded gross of withholding taxes.

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[1] Portfolio Ending Active Share: Measures the degree of active management by a portfolio manager.
$AS_f = | PW_f - BW_f | / 2$ where AS_f := Portfolio Ending Active Share; PW_f := Portfolio Ending Weight; and BW_f := Benchmark Ending Weight [2] Tracking Error: Measures how closely a portfolio follows the index it is benchmarked against. An index fund which closely tracks its benchmark will have a tracking error close to zero, while an actively managed portfolio will have a higher tracking error. Tracking Error is calculated as the root-mean-square of the difference between the portfolio and benchmark returns: $TE = \omega = \sqrt{E[(rp - rb)2]}$ where $rp - rb$ = the active return (i.e., the difference between the portfolio return and the benchmark return). This formula simplifies to: $TE = \omega = \sqrt{\sigma p2 + \sigma b2 - 2\beta\sigma b2}$ where $\sigma p2$ = portfolio variance; $\sigma b2$ = benchmark variance; and ß = Historical beta

The Russell 2000 Index measures the performance of the small-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2000 of the smallest securities base. The Russell 2500 Index measures the performance of the small to mid-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 2500 of the smallest securities based on a combination of their market cap and current index membership. The Russell 2000 Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2500 Value Index measures the performance of the small to mid-cap value segment of the U.S. equity universe. It includes those Russell 2500 Index companies with lower price-to-book ratios and lower expected growth values. The Russell 2000 Growth Index measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 2500 Growth Index is designed to measure the performance of those Russell 2500 companies with higher price-to-book ratios and higher forecasted growth values. The Russell 1000 Index measures the performance of the large-cap segment of the U.S. equity universe. It is a subset of the Russell 3000 Index and includes approximately 1000 of the largest securities based on a combination of their market cap and current index membership. The Russell Midcap Index measures the performance of the 800 smallest companies in the Russell 1000 Index.

Sapience Investments, LLC
Small Cap Value Equity Composite

As of December 31									
Year	Gross Returns (%)	Net Returns (%)	Russell 2000® Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	14.91	14.62	14.07	N/A	N/A	N/A	2	$223.99	$349.83
2017	3.06	1.95	7.84	0.19	N/A	N/A	14	$665.60	$771.66
2018	-17.33	-18.21	-12.86	0.17	N/A	N/A	14	$513.31	$647.68
2019	22.17	20.86	22.39	0.23	18.56	15.90	13	$610.15	$773.40
2020	7.11	5.99	4.63	0.20	33.32	26.49	12	$716.39	$760.25
2021	28.37	26.99	28.27	0.18	31.83	25.35	11	$870.84	$914.19
2022	-10.90	-11.87	-14.48	N/A	32.42	27.66	7	$487.53	$523.34

*Period presented is October 1, 2016 through December 31, 2016.

1. Sapience Investments, LLC claims compliance with the Global Investment Performance Standards (GIPS®) and has prepared and presented this report in compliance with the GIPS standards. Sapience Investments, LLC has been independently verified for the periods October 1, 2016 through December 31, 2022. The verification report is available upon request. A firm that claims compliance with the GIPS standards must establish policies and procedures for complying with all the applicable requirements of the GIPS standards. Verification provides assurance on whether the firm's policies and procedures related to composite and pooled fund maintenance, as well as the calculation, presentation, and distribution of performance, have been designed in compliance with the GIPS standards and have been implemented on a firm-wide basis. Verification does not provide assurance on the accuracy of any specific performance report.
2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The Small Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a two-to four-year investment horizon. The composite was created and incepted October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
6. The Russell 2000® Value Index measures the performance of the small-cap value segment of the U.S. equity universe. It includes those Russell 2000® Index companies with lower price-to-book ratios and lower expected growth values. It is not possible to invest in these indices. The returns for the Index do not include any transaction costs, management fees or other expenses. The volatility (beta) of the Composite may be greater or less than its respective benchmark.
7. The fee schedule for Adviser's investment advisory services for the Small Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020, a significant cash flow policy was adopted for the composite. Portfolios are removed from the composite if they have a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio is removed from the composite for the month in which the significant cash flow occurred and the following month.
9. GIPS® is a registered trademark of CFA Institute. CFA Institute does not endorse or promote this organization, nor does it warrant the accuracy or quality of the content contained herein.
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SMID Cap Value Equity Composite

Year	Gross Returns (%)	Net Returns (%)	Russell 2500™ Value Index (%)	Internal Dispersion (%)	Composite Gross 3Y Std Dev (%)	Index 3Y Std Dev (%)	# of Accounts	Composite Assets (000s)	Firm Assets (000s)
*2016	9.96	9.69	9.34	N/A	N/A	N/A	1	$22.50	$349.83
2017	1.31	0.30	10.36	N/A	N/A	N/A	8	$106.06	$771.66
2018	-17.44	-18.26	-12.36	0.25	N/A	N/A	10	$134.36	$647.68
2019	28.19	26.91	23.56	0.09	17.46	14.43	8	$163.26	$773.40
2020	1.98	0.97	4.88	N/A	29.67	25.40	2	$43.86	$760.25
2021	25.01	23.77	27.78	N/A	28.04	24.49	2	$43.06	$914.19
2022	-8.86	-9.72	-13.08	N/A	28.54	26.84	2	$33.1	$523.34

*Period presented is October 1, 2016 through December 31, 2016.

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2. Sapience Investments, LLC is an independent investment adviser registered under the Investment Advisers Act of 1940, as amended. The firm was established in September 2016.
3. The SMID Cap Value Equity Composite (the "Composite") includes all actual, fee-paying and non-fee-paying, fully discretionary institutional accounts with equity positions that are managed with a view toward capital appreciation, through small- to mid-capitalization companies with durable business models, trading at a discount to our estimate of intrinsic value, and possess value drivers to narrow the valuation gap over a three-to five-year investment horizon. The composite was created and incepted October 2016. The firm's list of composite descriptions is available upon request.
4. Composite and benchmark returns reflect the reinvestment of income. Composite returns are net of transaction costs and are presented gross and net of model investment advisory fees. Net returns are calculated by reducing the quarterly composite returns by 1/4th of 1%, the highest tier of the standard fee schedule. Performance is expressed in U.S. dollars. Additional information regarding policies for valuing investments, calculating performance, and preparing GIPS reports is available upon request. Dividends are recorded net of withholding taxes.
5. Internal dispersion is the equal-weighted standard deviation of the annual gross returns of all accounts included in the composite for the entire year. For years where there are 5 or fewer accounts in the composite for the entire year, dispersion is not presented as it is not a meaningful statistical calculation.
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7. The fee schedule for Adviser's investment advisory services for the SMID Cap Value Equity Composite is 1.00% on the first $25 million, 0.90% on the next $25 million, 0.85% on the next $50 million, 0.80% on amounts over $100 million. Actual investment advisory fees incurred by clients may vary.
8. Effective March 1, 2020 through June 1, 2021, portfolios were removed from the composite if they had a contribution or withdrawal at 50% or greater of the beginning market value of the portfolio. The portfolio was removed from the composite for the month in which the significant cash flow occurred and the following month.
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